

DOCKET No. 00-0802
ICC STAFF EXHIBIT 2.0

DIRECT TESTIMONY

OF

DIANNA HATHHORN

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

REQUEST FOR APPROVAL OF REVISIONS TO DELIVERY SERVICES TARIFFS
AND FOR APPROVAL OF DELIVERY SERVICES IMPLEMENTATION PLAN FOR
RESIDENTIAL CUSTOMERS

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY, D/B/A AMERENCIPS
AND
UNION ELECTRIC COMPANY, D/B/A AMERENUE

DOCKET No. 00-0802

APRIL 20, 2001

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Witness and Exhibit/Schedule Identification

Q. Please state your name and business address.

A. My name is Dianna Hathhorn. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission.

Q. What is the function of the Accounting Department of the Illinois Commerce Commission?

A. The Department's function is to monitor the financial condition of public utilities as part of the Commission's responsibilities under Article IV of the Public Utilities Act and to provide accounting expertise on matters before the Commission.

Q. Please describe your background and professional affiliation.

22 A. I am a licensed Certified Public Accountant. I earned a B. S. in Accounting
23 from Illinois State University in 1993. Prior to joining the Commission in
24 1998, I worked as an internal auditor for another Illinois state agency for
25 approximately 3.5 years. I also have 1.5 years experience in public
26 accounting for a national firm.

27

28 **Q. Have you previously testified before this Commission?**

29

30 A. Yes, I have.

31

32 **Q. What are your responsibilities in this case?**

33

34 A. The Accounting Department Manager of the Illinois Commerce Commission
35 assigned me to this case and defined the scope of my responsibilities. In
36 this proceeding, my responsibilities include reviewing Central Illinois Public
37 Service Company's and Union Electric Company's ("CIPS" or "UE" or
38 "Company") filing, analyzing the underlying data and proposing adjustments
39 when appropriate.

40

41 **Q. What is the purpose of your testimony in this proceeding?**

42

43 A. The purpose of my testimony is to propose adjustments to the Company's
44 operating statement and rate base concerning deregulation start up costs,
45 metering unbundling start up costs, deferred system development costs,
46 and distribution operations and maintenance ("O & M") expense. I also
47 make one recommendation concerning future depreciation studies.

48

49 **Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 2.0?**

50

51 A. Yes. I prepared, or supervised the preparation of, the following schedules
52 for the Company, which show data as of, or for the test year ending
53 December 31, 1999:

54 CIPS:

55 Schedule 2.1 CIPS-	Adjustment to Deregulation Start Up Costs-
56	O & M
57 Schedule 2.2 CIPS-	Adjustment to Metering Unbundling Start Up
58	Costs-O & M
59 Schedule 2.3 CIPS -	Adjustment to Deferred System Development
60	Costs
61 Schedule 2.4 CIPS -	Adjustment to Distribution O & M Expense

62

63 UE:

64 Schedule 2.1 UE-	Adjustment to Deregulation Start Up Costs-
65	O & M
66 Schedule 2.2 UE-	Adjustment to Metering Unbundling Start Up
67	Costs-O & M

68

69

70 Attachments:

71 Attachment A Company response to Staff data request DLH-024

72 Attachment B Company response to Staff data request DLH-025

73

74 Adjustment to Deregulation Start Up Costs-O & M

75 **Q. Please describe your Schedules 2.1 CIPS and 2.1 UE.**

76

77 A. Schedules 2.1 CIPS and 2.1 UE present my proposed adjustment to the
78 Company's pro forma amount for deregulation start up costs-O & M. The
79 adjustment consists of two components: 1) disallowance of non-delivery
80 services information systems and 2) disallowance of expenses incurred
81 outside the test year.

82

83 **Q. Please describe the disallowance of non-delivery services information**
84 **systems.**

85

86 A. I propose the disallowance of costs associated with three non-delivery
87 service information systems of the Company: 1) NERC Tagging
88 Automation, 2) OASIS Automation, and 3) Scheduling Enhancements.
89 These systems are used by the Company's Energy Services Organization
90 ("ESO") in fulfilling its transmission obligations. My review of the ESO
91 systems' invoices shows that the charges were, in fact, originally charged
92 to transmission expense accounts, but were reclassified for purposes of
93 this rate proceeding. From the Company's description of the functions and
94 use of these systems, in response to Staff data requests DLH-024 and

95 DLH-025, (Attachments A and B respectively), I find no basis or justification
96 for the reclassification to delivery services since these systems are used
97 for transmission related activities.

98

99 **Q. Please describe the disallowance of expenses incurred outside the**
100 **test year.**

101

102 A. The second component of my adjustment disallows O & M expenses for
103 costs incurred outside of the test year in the Company's calculation of
104 amortization expense. According to the Company's response to Staff data
105 request DLH-035, year 2000 costs were included in the Company's five-
106 year amortization amount since they were known and measurable changes
107 to the test year, evidenced by invoices. Invoices were, in fact, provided to
108 Staff, showing that these costs are nothing more than routine charges such
109 as legal, regulatory, and telephone charges incurred in the year 2000. A
110 normal level of these costs is already reflected in the 1999 test year
111 operating expenses. These additional costs do not represent significant
112 changes in operating expense levels, the intended purpose of a known and
113 measurable change to a historical test year amount. The Company
114 selected a 1999 test year, therefore these charges are not appropriate to
115 be included in the revenue requirement.

116

117 Adjustment to Metering Unbundling Start Up Costs-O & M

118 **Q. Please describe your Schedules 2.2 CIPS and 2.2 UE.**

119

120 A. Schedules 2.2 CIPS and 2.2 UE present my proposed adjustment to the
121 Company's pro forma amount for metering unbundling start up amortization
122 expense for O & M expenses. According to the Company's response to
123 Staff data request DLH-035, year 2000 costs were included in the
124 Company's five-year amortization amount since they were known and
125 measurable changes to the test year. My adjustment disallows regulatory
126 and legal fees for the year 2000 as these are routine charges that fall
127 outside the test year. These costs do not represent significant changes in
128 operating expense, again, the intended purpose of a known and
129 measurable change to a historical test year amount. The Company
130 selected a 1999 test year, therefore these charges are not appropriate to
131 be included in the revenue requirement.

132

133 The year 2000 charges that I allowed to remain a part of the amortization
134 amount were for completion of the application development stage of the
135 metering unbundling information systems. These costs are a continuation
136 of the significant information technology related one-time charges incurred
137 by the Company to implement meter unbundling beginning in 1999, and

continuing through year 2000. Therefore, these year 2000 O & M charges
are appropriate for the amortization treatment proposed by the Company.

Adjustment to Deferred System Development Costs

Q. Please describe your Schedule 2.3 CIPS.

A. Schedule 2.3 CIPS presents my proposed adjustment to rate base to
properly allocate the Customer Account System, included in the Company's
total Deferred System Development Costs (Ameren Exhibit No. 3.7), to
gas operations. The Company allocates 14.8% of the Customer Account
System's monthly amortization to gas operations. (See Data Request
Response to DLH-001). However, in the Company's filing, it failed to
allocate 14.8% of the rate base component for this system to gas
operations. Accordingly, 14.8% of the deferred charges for this system
should be allocated to gas operations.

Adjustment to Distribution O & M Expense

Q. Please describe your Schedule 2.4 CIPS.

A. Schedule 2.4 CIPS presents my proposed adjustment to disallow the
Company's pro forma adjustment to increase distribution expenses
because no such increase in distribution expenses actually occurred. The

Company's rationale for the adjustment is that the increase is necessary to reflect the current level of distribution expenses due to the 1999 transfer of plant from transmission to distribution. (Ameren Exhibit No. 3.0 Revised, p. 17, lines 377-384). However, analysis of historical and current data does not support the Company's conclusion that a 19.17% increase to distribution operations and maintenance expense is warranted.

Q. What is the basis for the Company's proposed 19.17% increase?

A. The Company's adjustment is based solely on the change in transmission O & M expense account balances between the twelve month period ended 9/30/99 and the twelve month period ended 9/30/00. (See Schedule 2.4 CIPS, page 2 of 2, line 13). Those balances decreased 19.17% in total over this time period; therefore, according to the Company, the distribution account balances should be increased by the same amount due to the plant transfer. The effect of my adjustment is to reflect the 1999 distribution expenses as a normal level.

Q. How does the proposed increase compare to the actual distribution O & M expenses incurred as of 12/31/00?

181 A. As reflected on line 5 of my Schedule 2.4 CIPS, page 2 of 2, the
182 Company's response to Staff data request DLH-017 shows that the actual
183 distribution O & M expenses decreased 4.85% overall from the twelve
184 months ended 12/31/99 to the twelve months ended 12/31/00.

185

186 **Q. In your analysis of historical transmission O & M account balance**
187 **variances, were you able to define a trend to compare the 19.17%**
188 **Company proposed increase?**

189

190 A. No; in analyzing data provided in Company responses to Staff data
191 requests DLH-016 through DLH-019, detailed in my Schedule 2.4 CIPS,
192 page 2 of 2, I found there was no trend in the annual variances for total
193 transmission O & M expenses. Over the years 1996 through 2000, the
194 variances ranged from an approximate 20% decrease, to near 40 and 50%
195 increases, to no change at all. To analyze a highly volatile change in
196 transmission expense balances at one point in time and draw a conclusion
197 for future distribution expense levels is unlikely to yield accurate results.
198 Therefore, since the actual data does not reflect an increase in distribution
199 O & M expense for year 2000, and since the historical data does not
200 support a trend of an increase, there is no basis to allow the Company's
201 pro forma adjustment to distribution operations and maintenance expenses
202 and it should be disallowed by the Commission.

203

204 Depreciation Study Recommendation

205 **Q. Have you reviewed the depreciation rates which the Company used in**
206 **this proceeding?**

207

208 A. Yes, I have. According to the Company's responses to Staff data requests
209 DLH-021 and DLH-022, the Company is using rates which are based upon
210 1984 and 1981 depreciation studies for CIPS and UE, respectively. Since
211 depreciation expense has one of the largest impacts on the Company's net
212 income, revenue requirement, and rate base, it is important that these
213 rates be accurate.

214

215 **Q. Are you proposing any changes to the Company's depreciation lives?**

216

217 A. I am proposing no changes now; however, due to the length of time
218 passed since the Company's previous studies were performed, I
219 recommend the Commission direct the Company to perform a depreciation
220 study prior to its next electric proceeding to determine a proper rate level.
221 Furthermore, I recommend that depreciation studies submitted to the
222 Commission to support future electric rate proceedings be no more than
223 five years old.

224

225 **Q. Has the Commission required other utilities to conduct depreciation**
226 **studies?**

227

228 A. Yes, it has. In Docket No. 95-0032, order dated November 8, 1995, the
229 Commission placed the Peoples Gas Light and Coke Company on a five
230 year schedule for conducting its depreciation study. Additionally, in Docket
231 No. 89-0276, order dated June 6, 1990, Illinois Power Company was
232 ordered to perform a depreciation study prior to its next electric rate case.

233

234 **Q. Does this conclude your prepared direct testimony?**

235

236 A. Yes, it does.

AmerenUE AND AmerenCIPS
ILLINOIS COMMERCE COMMISSION
DOCKET NO. 00-0802
DATA REQUEST NUMBER: DLH-024

WITNESS RESPONSIBLE: Peggy Ladd
JOB TITLE: Supervising Engineer, Transmission Service Scheduling
BUSINESS ADDRESS: 1901 CHOUTEAU AVENUE
P.O. BOX 66149, MC 202
ST. LOUIS, MISSOURI 63166-6149
TELEPHONE NUMBER: (314) 554-2837

DLH-024 State the purpose and/or function of the following systems in the Company's ESO:
a) NERC Tag Automation;
b) OASIS Automation;
c) Energy Scheduler Enhancements.

Response: The Company must utilize the above systems for the following duties:

- a) NERC Tags are now standardized using an "e-tag" format. Due to the volume of e-tags that the Company processes, an automated system is required in order to act on and schedule e-tags within the allotted timeframe as mandated by NERC. The automation system that the Company uses allows for rapid scanning of e-tags as either valid or invalid. The system allows processes e-tags into the scheduling program, allowing energy to be properly scheduled on the appropriate interface.
- b) The OASIS system is an internet-based system that allows the Company's Transmission Service Scheduler to process OASIS requests. OASIS automation allows the Company to process requests in a more prompt manner than the existing system. Requests can be acted on in a more reliable, efficient manner using the Company's automated OASIS system.
- c) The Energy Scheduler provides the interface so that Power Dispatchers can have accurate tracking of energy flowing between the Company's external interfaces. The enhancements to the program allow e-tags and confirmed OASIS requests to enter the Scheduler automatically, thus eliminating human error and improving efficiency.

AmerenUE AND AmerenCIPS
ILLINOIS COMMERCE COMMISSION
DOCKET NO. 00-0802
DATA REQUEST NUMBER: DLH-025

WITNESS RESPONSIBLE: Peggy Ladd
JOB TITLE: Supervising Engineer, Transmission Service Scheduling
BUSINESS ADDRESS: 1901 CHOUTEAU AVENUE
P.O. BOX 66149, MC 202
ST. LOUIS, MISSOURI 63166-6149
TELEPHONE NUMBER: (314) 554-2837

DLH-025 Were the ESO enhancements, as identified in the Company's response to DLH-006, required to deliver electricity to Illinois customers? If the answer to this question is yes, provide a detailed explanation of the rationale that such ESO enhancements were required.

Response: The ESO enhancements, as identified in the Company's response to DLH-006, were required to deliver electricity to Illinois customers. Each reservation to deliver energy, using the Company's transmission system, must be facilitated using the OASIS reservation system. Additionally, each confirmed reservation must have an e-tag that is used to mark and schedule the actual flow of the energy. Due to the high volume of requests that the Company processes, without the ESO enhancements, it would not be possible to supply the Illinois customers with the level of service they required. Therefore, enhancements were made that allows the Company to process OASIS requests and e-tags in an effective timeframe.

Central Illinois Public Service Company
 Adjustment to Deregulation Start Up Costs-O & M
 For the Test Year Ended December 31, 1999
 (In Thousands)

Line No.	Description (A)	Account (B)	Amount (C)	Source (D)
1	NERC, OASIS, and Scheduling System Amortization per Staff	581	\$ -	
2	NERC, OASIS, and Scheduling System Amortization per Company	581	<u>57</u>	(1)
3				
4	Staff Proposed Adjustment		<u>\$ (57)</u>	Line 1 - Line 2
5				
6	Administrative and General Amortization per Staff	Various	\$ 260	(2)
7	Administrative and General Amortization per Company	Various	<u>287</u>	(3)
8				
9	Staff Proposed Adjustment		<u>\$ (27)</u>	Line 6 - Line 7

(1) Per Company response to Staff data request AD-032.8 Revised

(2) Schedule 2.1 CIPS, Page 2 of 2, Col. (F), Line 5

(3) Per Company response to Staff data request AD-032.8 Revised; Sum of Lines 2-5 for Accounts 921, 923, and 928

Central Illinois Public Service Company
 Adjustment to Deregulation Start Up Costs-O & M
 For the Test Year Ended December 31, 1999
 (In Thousands)

Line No.	Account (A)	1999 Amount Per Staff (B)	2000 Amount Per Staff (C)	Subtotal (D) (B + C)	Amortization Period (E) (1)	Staff Proposed Amortization Expense (F) (D/5)
1	921	\$ 108	\$ -	\$ 108	5	\$ 22
2	923	897	0	897	5	179
3	928	297	0	297	5	59
4						
5						<u>\$ 260</u>

(1) Per Company response to Staff data request AD-032.8 Revised

Central Illinois Public Service Company
 Adjustment to Metering Unbundling Start Up Costs-O & M
 For the Test Year Ended December 31, 1999
 (In Thousands)

Line No.	1999 Total Amount Per Staff (A) (1)	2000 Total Amount Per Staff (B) (2)	Subtotal (C) (A + B)	Amort. Period (D) (1)	Total Staff Proposed Amortization Expense (E) (C/5)	CIPS Allocation Factor (F) (3)	Staff Proposed CIPS Amortization Expense (G) (E * F)	Company CIPS Amortization Expense (H) (4)	Staff Proposed Adjustment (I)
1	\$ 270	\$ 82	\$ 352	5	\$ 70	80.85%	\$ 57	\$ 60	\$ <u>(3)</u>

(1) Per Company response to Staff data request DLH-008

(2) Per Company response to Staff data request DLH-008 less legal costs of \$21,195

(3) Per Company workpaper WP-AD-032.6-1e

(4) Ameren Exhibit No. 3.8 (Revised), Page 2 of 2, Line 12

Central Illinois Public Service Company
Adjustment to Deferred System Development Costs
For the Test Year Ended December 31, 1999
(In Thousands)

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	Deferred System Development Costs per Staff	\$ 1,685	(1)
2	Deferred System Development Costs per Company	<u>1,956</u>	(2)
3			
4	Staff Proposed Adjustment	<u>\$ (271)</u>	Line 1 - Line 2

(1) Per Company response to Staff data request DLH-001, reducing the Customer Account System deferred charges balance from \$1,835,000 to \$1,563,555.

(2) Ameren Exhibit No. 3.7, Line 1

Central Illinois Public Service Company
Adjustment to Distribution O & M Expense
For the Test Year Ended December 31, 1999
(In Thousands)

Line No.	Description (A)	Amount (B)	Source (C)
1	Pro forma increase in Distribution O & M Expense per Staff	\$ -	
2	Pro forma increase in Distribution O & M Expense per Company	<u>2,123</u>	(1)
3			
4	Staff Proposed Adjustment	<u><u>\$ (2,123)</u></u>	Line 1 - Line 2

(1) Ameren Exhibit No. 3.8 (Revised), Page 2 of 2, Line 16

Central Illinois Public Service Company
Adjustment to Distribution O & M Expense
For the Test Year Ended December 31, 1999
(In Thousands)

Line No.	Description (A)	Amount (B)	Source (C)
1	Distribution O & M Expense at 12/31/99	\$ 35,664,298	(1)
2	Distribution O & M Expense at 12/31/00	33,932,910	(1)
3			
4	Variation	(1,731,388)	(1)
5	Percentage Change	-4.85%	(1)
6			
7	Transmission O & M Expense Variance 1997-1996	-0.37%	(2)
8	Transmission O & M Expense Variance 1998-1997	-19.76%	(2)
9	Transmission O & M Expense Variance 1999-1998	37.59%	(1)
10	Transmission O & M Expense Variance 2000-1999	47.60%	(1)
11	Transmission O & M Expense Variance 2000-1999 adjusted	-20.75%	(3)
12			
13	Transmission O & M Expense Variance 9/30/00-9/30/99	-19.17%	(4)

(1) Company response to Staff data request DLH-017

(2) Company response to Staff data request DLH-016

(3) Company response to Staff data request DLH-017 adjusted for Midwest ISO payment as identified by the Company in response to Staff data request DLH-019

(4) Company proposed increase to Distribution O & M Expense per WP-AD-032.16-2a and WP-AD-032.17-2a

Union Electric Company
 Adjustment to Deregulation Start Up Costs-O & M
 For the Test Year Ended December 31, 1999
 (In Thousands)

Line No.	Description (A)	Account (B)	Amount (C)	Source (D)
1	NERC, OASIS, and Scheduling System Amortization per Staff	581	\$ -	
2	NERC, OASIS, and Scheduling System Amortization per Company	581	14	(1)
3				
4	Staff Proposed Adjustment		<u>\$ (14)</u>	Line 1 - Line 2
5				
6	Administrative and General Amortization per Staff	Various	\$ 62	(2)
7	Administrative and General Amortization per Company	Various	68	(3)
8				
9	Staff Proposed Adjustment		<u>\$ (6)</u>	Line 6 - Line 7

(1) Per Company response to Staff data request AD-032.8 Revised

(2) Schedule 2.1 UE, Page 2 of 2, Col. (F), Line 5

(3) Per Company response to Staff data request AD-032.8 Revised; Sum of Lines 2-5 for Accounts 921, 923, and 928

Union Electric Company
 Adjustment to Deregulation Start Up Costs-O & M
 For the Test Year Ended December 31, 1999
 (In Thousands)

Line No.	Account (A)	1999 Amount Per Staff (B)	2000 Amount Per Staff (C)	Subtotal (D) (B + C)	Amortization Period (E) (1)	Staff Proposed Amortization Expense (F) (D/5)
1	921	\$ 26	\$ -	\$ 26	5	\$ 5
2	923	213	0	213	5	43
3	928	70	0	70	5	14
4						
5						<u>\$ 62</u>

(1) Per Company response to Staff data request AD-032.8 Revised

Union Electric Company
Adjustment to Metering Unbundling Start Up Costs-O & M
For the Test Year Ended December 31, 1999
(In Thousands)

Line No.	1999 Total Amount Per Staff (A) (1)	2000 Total Amount Per Staff (B) (2)	Subtotal (C) (A + B)	Amort. Period (D) (1)	Total Staff Proposed Amortization Expense (E) (C/5)	UE Allocation Factor (F) (3)	Staff Proposed UE Amortization Expense (G) (E * F)	Company UE Amortization Expense (H) (4)	Staff Proposed Adjustment (I)
1	\$ 270	\$ 82	\$ 352	5	\$ 70	19.15%	\$ 13	14	\$ <u>(1)</u>

(1) Per Company response to Staff data request DLH-008

(2) Per Company response to Staff data request DLH-008 less regulatory and legal costs of \$21,195

(3) Per Company workpaper WP-AD-032.6-1e

(4) Ameren Exhibit No. 3.18 (Revised), Page 2 of 2, Line 12